

**FINAL EXAMINATION**  
**MODEL QUESTION PAPER**  
**PAPER – 17**  
**COST AND MANAGEMENT AUDIT**

**SET - 1**  
**TERM – DECEMBER 2024**  
**SYLLABUS 2022**

**Time Allowed: 3 Hours**

**Full Marks: 100**

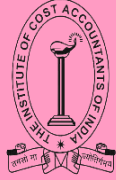
**The figures in the margin on the right side indicate full marks.**

**SECTION – A (Compulsory)**

**1.(a) Choose the correct option:**

**[15 x 2 = 30]**

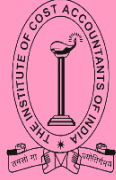
- (i) The applicability of cost audit under Companies (Cost Records & Audit) – Rules, 2014 for regulated industries having overall annual turnover during immediate preceding financial year is \_\_\_\_
- A. ₹25.00 crores or more  
B. ₹35.00 crores  
C. ₹50.00 crores or more  
D. ₹100.00 crores
- (ii) Cost Auditor is to be appointed within \_\_\_\_\_ days from the start of the F.Y.
- A. 50  
B. 100  
C. 180  
D. 200
- (iii) Which Cost Auditing Standard requires Cost Auditor to evaluate and assess IT Environment and Control?
- A. 101  
B. 102  
C. 103  
D. 104
- (iv) Which Cost Accounting Standards deals with Material Cost?
- A. CAS 1  
B. CAS 2  
C. CAS 6  
D. CAS 10
- (v) Remuneration of the Non-Executive Directors is treated as \_
- A. Employee Costs  
B. Administrative Overheads  
C. Non-Cost Item  
D. Selling & Distribution Overhead



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- (vi) CRA 1 pertains to?
- A. Cost Accounting Records
  - B. Cost Accounting Standards
  - C. Financial Accounting Records
  - D. Secretarial Records
- (vii) Who is the approving authority of Cost Auditing Standards?
- A. Ministry of Finance
  - B. Ministry of External Affairs
  - C. Ministry of Corporate Affairs
  - D. Ministry of Coal & Mining
- (viii) Which of the following statements is not true about a continuous audit?
- A. It is conducted at regular intervals.
  - B. It may be carried out on daily basis.
  - C. It is needed when the organisation has a good internal control system.
  - D. It is expensive.
- (ix) Test checking is done when there is an effective system of\_\_
- A. Internal control
  - B. Internal audit
  - C. Internal check
  - D. Both (a) and (b)
- (x) Pressure, opportunity & \_\_\_\_\_ are the aspects of a fraud triangle
- A. Rationalization.
  - B. Creation.
  - C. Commitment
  - D. None of the above.
- (b) SKY Co. has planned for an investment of ₹800.00 lakh with a 50% Loan from Banks at 10% interest. Direct Cost for the year ₹480.0 lakhs and 50% of which is Material cost. Other expenses are at ₹80.0 lakh. The goods will be sold at 150% of the direct cost. The tax rate is assumed at 50%.
- Choose the correct option based on above information: -
- (i) Net Profit Margin of SKY Co is \_\_\_\_
- A. 8.33 %
  - B. 8.05 %
  - C. 7.09 %



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D. 6.33 %

(ii) Return on Assets of SKY Co is \_\_\_\_

- A. 9.05 %
- B. 7.50 %
- C. 7.10 %
- D. 6.50 %

(iii) Return on Equity of SKY Co is -

- A. 20 %
- B. 15 %
- C. 12.5 %
- D. 14 %

(iv) Asset Turnover of SKY Co is -

- A. 0.75
- B. 0.50
- C. 0.90
- D. 1.12

(v) Inventory Turnover of SKY Co is -

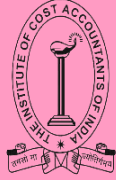
- A. 38 %
- B. 35.33 %
- C. 36.33 %
- D. 33.33 %

**SECTION – B**

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5x14=70]

2. (a) What are the utility and advantages of Cost Audit? Explain. [7]
- (b) Explain how depreciation & amortization, spare parts, stand-by equipment, and servicing equipment are treated in accounting for fixed assets, according to the guidelines provided [i.e. Companies (Cost Records and Audit) Rules, 2014]. [7]
3. (a) Describe Code of Professional Ethics which need to be followed in the field of Cost and Management Accounting. [7]



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- (b) Summarize the three stages of an audit of cost statements: planning, performing, and reporting. Provide detailed descriptions of what activities are involved in each stage and how they contribute to the overall audit process. [7]

4. (a) Purchase of Materials ₹1,50,000 (inclusive of GST of ₹7,857); Free on Board ₹ 6,000; Import Duty paid ₹7,500; Freight inward ₹10,000; Insurance paid for import by sea ₹5,000; Rebates allowed ₹2,000; Cash discount ₹1,500; Subsidy received from the Government for importation of these materials ₹10,000. Compute the landed cost of material (i.e. value of receipt of material). [7]

- (b) AROMA LTD., a manufacturing unit, produces two products PB and PS. The following information is extracted from the Books of the Company for the year ended March 31, 2024:

Particulars	Product PB	Product PS
Units Produced (Qty.)	2,10,000	1,68,000
Units sold (Qty.)	1,68,000	1,36,500
Machine hours utilized	1,26,000	84,000
Design charges (₹)	1,57,500	1,89,000
Software development charges (₹)	2,62,500	3,78,000

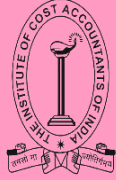
Royalty paid on sales ₹6,09,000 [ @ ₹2 per unit sold for both the products].

- (i) Royalty paid on units produced ₹3,78,000 [ @ ₹1 per unit produced for both the products].
- (ii) Hire charges of equipment used in the manufacturing process of product PB only ₹53,000.

Note: No adjustments are to be made related to units held i.e. Closing Stock.

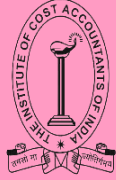
You are required to compute the Direct Expenses—keeping in view of Cost Accounting Standard (CAS-10). [7]

5. (a) Auto Parts Manufacturing Company Ltd. showed a profit for the year 2023-24 as ₹35,46,700. During the course of Cost Audit, the following transactions were noticed:
- an old machine with net value of ₹6,54,000 was sold off for ₹9,30,000,
  - dividend income was received amounting to ₹84,500 from investments,
  - a sum of ₹58,000 was spent towards CSR commitment,
  - the company was engaged in trading activity where purchase of goods was ₹13,50,000 and sales was ₹13,42,300, after incurring ₹40,800 as expenditure,
  - some renovation work was carried out at a cost of ₹7,75,000 and its useful life was only for five years, and



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- (vi) the closing inventory of raw material was undervalued ₹29,600 and that of finished goods was overvalued ₹ 65,400 in the financial records.  
Work out the Profit as per the Cost Accounts. [7]
- (b) Discuss the need for Forensic Accountants. [7]
6. (a) Describe the circumstances under which a person can be searched under Section 18 of the PMLA. Additionally, explain the prerequisites for arresting an individual under Section 19, highlighting the authorities involved and the procedural steps that must follow post-arrest. [7]
- (b) Identify the essential qualities required of a Management Auditor. [7]
7. (a) Describe the steps involved in conducting an IT Security Audit. [7]
- (b) Explain the need for energy audit. [7]
8. (a) Explain briefly about the Scope of Internal Control. [7]
- (b) Discuss Audit Procedure for conducting the Audit of Educational Institutions. [7]



FINAL EXAMINATION

SET - 1

MODEL ANSWERS

TERM – DECEMBER 2024

PAPER – 17

SYLLABUS 2022

COST AND MANAGEMENT AUDIT

Time Allowed: 3 Hours

Full Marks: 100

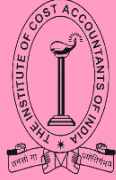
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SECTION – A (Compulsory)

1.(a) Choose the correct option:

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## COST AND MANAGEMENT AUDIT

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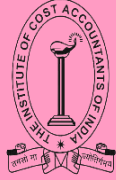
Answer:

i	ii	iii	iv	v	vi	vii	viii	ix	x
C	C	D	C	B	A	C	C	C	A

- (b) SKY Co. has planned for an investment of ₹800.00 lakh with a 50% Loan from Banks at 10% interest. Direct Cost for the year ₹480.0 lakhs and 50% of which is Material cost. Other expenses are at ₹80.0 lakh. The goods will be sold at 150% of the direct cost. The tax rate is assumed at 50%.

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## COST AND MANAGEMENT AUDIT

- B. 8.05 %  
C. 7.09 %  
D. 6.33 %

(ii) Return on Assets of SKY Co is \_\_\_\_

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- A. 38 %  
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C. 36.33 %  
D. 33.33 %

Answer:

i	ii	iii	iv	v
A	B	B	C	D

## SECTION – B

(Answer any five questions out of seven questions given. Each question carries 14 Marks)

[5x14=70]

2. (a) What are the utility and advantages of Cost Audit? Explain.

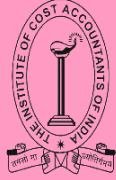
[7]

Answer:

In the initial years, Cost Audit was taken merely as a tool for price control mechanism for consumer and infrastructure industries in India. The main objective of Cost Audit when statutorily introduced under the provisions of the Companies Act, 1956 was to meet the Government requirements for regulating the administered price mechanism in some core industries. The objective was to provide an authentic data to the Government to regulate the demand and supply in the country through a price control mechanism

The liberalization of the economy and consequential globalization has further enhanced the need for authentic data. The Expert committee formed by the Government of India to study the Cost Audit scenario in the country, highlighted the following benefits of cost information:



**COST AND MANAGEMENT AUDIT**

- Cost information enables the organization to structure the cost, understand it and use it for communicating with the stakeholders.
- Costing is an important tool in assessing organizational performance in terms of shareholder and stakeholder value. It informs how profits and value are created, and how efficiently and effectively operational processes transform input into output. It contributes to the data input on economy level parameters like resources efficiency, waste management, resources allocation policies etc.
- Costing includes product, process, and resource-related information covering the functions of the organization and its value chain. Costing information can be used to appraise actual performance in the context of implemented strategies.
- Good practice in costing should support a range of both regular and non-routine decisions when designing products and services to:
  - meet customer expectations and profitability targets;
  - assist in continuous improvements in resources utilization; and
  - guide product mix and investment decisions.
- Working from a common data source (or a single set of sources) also helps to ensure that output reports for different audiences are reconcilable with each other.
- Integrating databases and information systems can help to provide useful costing information more efficiently as well as reducing source data manipulation.

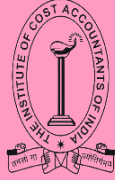
As per International Federation of Accountants (IFAC) cost audits help to ascertain whether an organization's cost accounting records are so maintained as to give a true and fair view of the cost of production, processing, manufacturing, and mining of a product. Therefore, cost audits can be used to the benefit of management, consumers and shareholders by (a) helping to identify weakness in cost accounting systems, and (b) to help drive down costs by detecting wastage and inefficiencies. Cost audits are also of assistance to governments in helping to formulate tariff and taxation policies.

- (b) Explain how depreciation & amortization, spare parts, stand-by equipment, and servicing equipment are treated in accounting for fixed assets, according to the guidelines provided [i.e. Companies (Cost Records and Audit) Rules, 2014] [7]**

**Answer:**

The following points are to be taken into consideration while accounting of fixed assets and depreciation as per guideline provided: -

- Proper and adequate records shall be maintained for assets used for production of goods or rendering of services under reference in respect of which depreciation has to be provided for. These records shall, inter- alia, indicate grouping of assets under each good or service, the cost of acquisition of each item of asset including installation charges, date of acquisition and rate of depreciation.
- The depreciation and amortization shall be the amount recognized as an expense for the year in the financial statements, which shall be measured as per the provisions contained in schedule II of the Companies Act, 2013 and the accounting standards applicable for the time being in force. The amount of Depreciation and Amortization not recognized as expense in the financial statements shall be treated as a non-cost item.
- Depreciation on an asset which is temporarily retired from production of goods and

**COST AND MANAGEMENT AUDIT**

services shall be considered as abnormal cost for the period when the asset is not in use.

- Impairment loss on assets shall be excluded from cost of production.
- Spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and depreciated accordingly. Otherwise, such items shall be classified as inventory.
- Depreciation shall be traced to the cost object to the extent economically feasible.
- Where the depreciation is not directly traceable to cost object, it shall be assigned based on either of the following two principles; namely: -
  - (i) Cause and Effect - Cause is the process or operation or activity and effect is the incurrence of cost.
  - (ii) Benefits received - overheads are to be apportioned to the various cost objects in proportion to the benefits received by them.

**3. (a) Describe Code of Professional Ethics which need to be followed in the field of Cost and Management Accounting. [7]**

**Answer:**

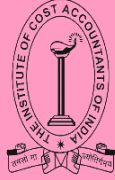
As professionals in the field of Cost and Management Accounting, the members of our Institute are bound by a code of professional ethics. This code stipulates and binds them to the highest level of care, duty and responsibility to their employers and clients, the public and their fellow professionals.

The objectives of the accountancy profession are to work to the highest standards of professionalism, to attain the highest levels of performance and generally to meet the public interest requirement. These objectives require four basic needs to be met:

- Credibility in information and information systems;
- Professionalism identified by employers, clients and other interested parties;
- Quality of service carried out to the highest standards of performance; and
- Confidence that there is a framework of professional ethics to govern the provision of services.

In order to achieve the objectives of the accountancy profession, cost accountants have to observe fundamental principles, which are:

- **Integrity**  
A cost accountant should be straightforward and honest in performing his services.
- **Objectivity**  
A cost accountant should be fair and should not allow prejudice or bias or the influence of others to override objectivity
- **Competence**  
A cost accountant must refrain from performing any service which he is not competent to carry out unless proper advice and assistance is obtained to ensure that the service is performed to the satisfaction.
- **Confidentiality**  
A cost accountant must not disclose information acquired during the course of his

**COST AND MANAGEMENT AUDIT**

engagement and should not use or disclose any such information without proper and specific authority or unless there is a legal or professional right or duty to disclose.

- **Professional Behavior**

A cost accountant should act in a manner consistent with the good reputation of the profession.

In addition to the fundamental principles above a cost accountant in practice, should be and appear to be free of any interest which might be regarded, whatever its actual effect, as being incompatible with integrity, objectivity and independence.

- (b) Summarize the three stages of an audit of cost statements: planning, performing, and reporting. Provide detailed descriptions of what activities are involved in each stage and how they contribute to the overall audit process. [7]**

**Answer:**

The stages of an audit of cost statements are:

- Planning
- Performing
- Reporting

Once the entity's acceptance or continuation decision has been made, the first stage is planning the audit. Broadly, the planning stage involves: (i) gaining an understanding of the client, (ii) identifying factors that may impact the risk of a material misstatement in the cost statements, (iii) performing a risk and materiality assessment, and (iv) developing an audit strategy. The risk of a material misstatement is the risk that the cost statements include a significant error or fraud. The execution stage (or performing stage) of the audit involves the performance of detailed testing of internal controls and substantive testing of cost accounting policies & procedures. The reporting stage involves evaluating the results of detailed testing in light of the cost auditor's understanding of the entity and forming an opinion on the fair presentation of the entity's cost statements as a whole.

**Planning an Audit - First Stage**

After deciding to accept or continue with the entity, the planning stage begins. It involves:

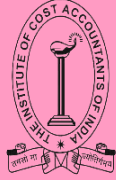
- Understanding the client.
- Identifying factors that may impact the risk of material misstatement.
- Performing a risk and materiality assessment.
- Developing an audit strategy.

A well-planned audit ensures efficient gathering of sufficient evidence to minimize the risk of material misstatement.

**Performing an Audit - Second Stage**

The execution stage involves detailed testing, including:

- Testing internal controls.
- Conducting substantive tests of audit procedures and cost accounting policies.



## COST AND MANAGEMENT AUDIT

- Testing consumptions and balances at the period end.

This testing provides evidence to determine the fair presentation of cost statements.

**Concluding and Reporting on an Audit - Final Stage**

In this stage, the auditor draws conclusions based on the gathered evidence and forms an opinion on the fair presentation of the cost statements. This opinion is expressed in the cost audit report, utilizing the auditor's understanding of the client, identified risks, and the results of detailed testing.

4. (a) Purchase of Materials ₹1,50,000 (inclusive of GST of ₹7,857); Free on Board ₹6,000; Import Duty paid ₹7,500; Freight inward ₹10,000; Insurance paid for import by sea ₹5,000; Rebates allowed ₹2,000; Cash discount ₹1,500; Subsidy received from the Government for importation of these materials ₹10,000. Compute the landed cost of material (i.e. value of receipt of material). [7]

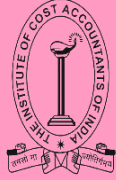
Answer:

**Computation of Landed Cost of Material**

	Particulars	Amount (₹)
	Purchase price of Material	1,50,000
<b>Add:</b>	Free on Board	6,000
<b>Add:</b>	Import Duties of purchasing the material	7,500
<b>Add:</b>	Freight Inward during the procurement of material	10,000
<b>Add:</b>	Insurance paid	5,000
	<b>Total</b>	<b>1,78,500</b>
<b>Less:</b>	Rebates	2,000
<b>Less:</b>	GST Input Tax Credit	7,857
<b>Less:</b>	Subsidy received from the Government for importation of materials	10,000
	<b>Value of Receipt of Material</b>	<b>1,58,643</b>

- (i) Cash discount is not allowed, as it is a financial item.
- (ii) Subsidy received, rebates and GST Input Tax Credit are to be deducted for the purpose of computing the material cost.

Particulars	Product PB	Product PS
Units Produced (Qty.)	2,10,000	1,68,000
Units sold (Qty.)	1,68,000	1,36,500
Machine hours utilized	1,26,000	84,000
Design charges (₹)	1,57,500	1,89,000
Software development charges (₹)	2,62,500	3,78,000



## COST AND MANAGEMENT AUDIT

(b) AROMA LTD., a manufacturing unit, produces two products PB and PS. The following information is extracted from the Books of the Company for the year ended March 31, 2024:

[7]

Royalty paid on sales ₹6,09,000 [ @ ₹2 per unit sold for both the products].

- (i) Royalty paid on units produced ₹3,78,000 [ @ ₹1 per unit produced for both the products].
- (ii) Hire charges of equipment used in the manufacturing process of product PB only ₹53,000.

Note: No adjustments are to be made related to units held i.e. Closing Stock.

You are required to compute the Direct Expenses—keeping in view of Cost Accounting Standard (CAS-10).

Answer:

## AROMA LTD.

## Computation of Direct Expenses (As per CAS-10)

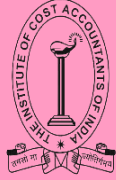
Particulars	Product PB(₹)	Product PS(₹)
Royalty paid on sale	3,36,000	2,73,000
Add: Royalty paid on units produced	2,10,000	1,68,000
Add: Hire charges of equipment used in the manufacturing process of product-PB only	53,000	—
Add: Design charges	1,57,500	1,89,000
Add: Software development charges related to production	2,62,500	3,78,000
<b>Direct expenses (total)</b>	<b>10,19,000</b>	<b>10,08,000</b>

5.(a) Auto Parts Manufacturing Company Ltd. showed a profit for the year 2023-24 as ₹35,46,700. During the course of Cost Audit, the following transactions were noticed:

- (i) an old machine with net value of ₹6,54,000 was sold off for ₹9,30,000,
- (ii) dividend income was received amounting to ₹84,500 from investments,
- (iii) a sum of ₹58,000 was spent towards CSR commitment,
- (iv) the company was engaged in trading activity where purchase of goods was ₹13,50,000 and sales was ₹13,42,300, after incurring ₹40,800 as expenditure,
- (v) some renovation work was carried out at a cost of ₹7,75,000 and its useful life was only for five years, and
- (vi) the closing inventory of raw material was undervalued ₹29,600 and that of finished goods was overvalued ₹65,400 in the financial records.

Work out the Profit as per the Cost Accounts.

[7]



## COST AND MANAGEMENT AUDIT

**Answer:**

Reconciliation of Profit between Cost Accounts and the Financial Accounts of Auto Parts Manufacturing Company Ltd. for the year 2023-24.

Particulars	₹	₹
<b>Profit as per the Financial Accounts</b>		<b>35,46,700</b>
Add: Trading Loss	48,500	
4/5th of Renovation Expenses Amortized	6,20,000	
CSR Contribution	<u>58,000</u>	7,26,500
Less: Profit on Sale of Assets	2,76,000	
Income from Investments	84,500	
Net overvaluation of closing inventory in the Financial records ₹ (65,400 - 29,600)	<u>35,800</u>	(-) 3,96,300
<b>Profit as per the Cost Accounts</b>		<b>38,76,900</b>

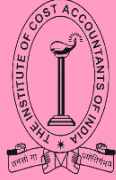
**(b) Discuss the need for Forensic Accountants.****[7]****Answer: -**

Forensic Accounting is a specialized practice area focusing on engagements resulting from actual or anticipated frauds, disputes, or litigations. This field, which involves utilizing accounting, auditing, CAATs/Data Mining Tools, and investigative skills to detect frauds and mistakes, is in increasing demand due to the rise in cyber-crimes and frauds. Government bodies, PSUs, the insurance sector, banks, investigating agencies, and various firms have forensic accounting departments engaging forensic auditors.

Maurice E. Peloubet coined the term "Forensic Accountant" in 1946, indicating its relevance beyond traditional financial statement preparation. In India, the potential for chartered accountants to enter this field is growing, with agencies like the CBI involved in forensic accounting.

The increasing number of regulatory and administrative bodies will demand more forensic reviews, involving cost accountants in forensic practices. The changing nature of accounting and auditing standards supports this trend.

According to Accounting Today, nearly 40 percent of the top 100 American accounting firms are expanding their forensic and fraud services. This trend suggests that forensic practices will soon significantly contribute to Indian CMA firms' revenues. The ACFE's 2018 report highlights 2,690 cases of occupational fraud across 125 countries, resulting in losses over \$7 billion, with 72 cases from India. This underscores the growing demand for

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professionals who can identify and prevent fraud, especially amid tough economic conditions and heightened corporate governance scrutiny.

The prominence of forensic audits has been amplified by high-profile cases like those of Vijay Mallya and Nirav Modi, and the significant NPA build-up by state-owned banks, leading to increased efforts to detect, prevent, and legally address fraud.

6. (a) Describe the circumstances under which a person can be searched under Section 18 of the PMLA. Additionally, explain the prerequisites for arresting an individual under Section 19, highlighting the authorities involved and the procedural steps that must follow post-arrest. [7]

Answer:

**Section 18 of the PMLA deals with power to search a person**

If an authority has reason to believe (the reason for such belief to be recorded in writing) that any person has

- secreted about his person or
- in anything under his possession, ownership, or control any record or proceeds of crime which may be useful for or relevant to any proceedings under this Act,

the authority may search that person and seize such record or property which may be useful for or relevant to any proceedings under this Act.

**Arrest under PMLA (Section 19)**

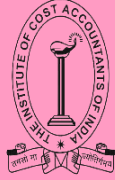
Under Section 19 of PMLA, the Deputy Director, Assistant Director, or any other officer authorized on this behalf by the Central Government by general or special order, has the power to arrest a person.

A person can be arrested by the concerned authority, if such authority, is based on material in his possession,

- Has reason to believe that such a person has been guilty of an offence punishable under PMLA, and
- The reason for such belief has been recorded in writing After arresting such a person, the authority is bound to: -
- Inform the arrested person about the ground for his arrest
- Forward a copy of the arrest order along with the material in his possession to the Adjudication Authority
- Produce such person, within 24 hours, before the Special Court or Judicial Megistrate or a Metropolitan Megistrate, as the case may be, having jurisdiction.

- (b) Identify the essential qualities required of a Management Auditor. [7]

Answer:

**COST AND MANAGEMENT AUDIT****The management auditor should have the following qualities:**

- A management auditor should have good knowledge and experience of all Managerial Functions.
- An Auditor should have good knowledge of financial, cost statements analysis techniques.
- She/he should know about economics and business laws, etc.
- Understanding of Organization structure and decisions taken by management the, working of the organization and its problems is also required.
- Thorough understanding of all processes and control aspects.
- She/he should know and understand the objectives of the organization very well.
- She/he should understand planning, budgets, rules, and procedures to be applied in management reviews.
- She/he should be well-versed with the entire production process.
- She/he should have enough knowledge and experience to understand the reason behind the lack of coordination between different departments.
- She/he should have the quality of giving practical and achievable solutions to the problems in the organization.

**7. (a) Describe the steps involved in conducting an IT Security Audit**

[7]

**Answer:**

The Steps in an IT Security Audit

A cyber security audit consists of five steps:

- Define the objectives.
- Plan the audit.
- Perform the auditing work.
- Report the results.
- Take necessary action for the deficiencies

**Define the Objectives:**

Layout the goals that the auditing team aims to achieve by conducting the IT security audit. Make sure to clarify the business value of each objective so that specific goals of the audit align with the larger goals of the company.

List of questions as a starting point for brainstorming and refining of objectives for the audit.

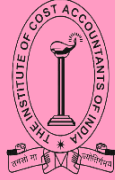
- Which systems and services do want to test and evaluate?
- Do audit digital IT infrastructure, physical equipment, and facilities, or both?
- Is disaster recovery on the list of concerns? What specific risks are involved?
- Does the audit need to be geared towards proving compliance with a particular regulation?

**Plan the Audit:**

A thoughtful and well-organized plan is crucial to success in an IT security audit.

Define the roles and responsibilities of the management team and the IT system administrators



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assigned to perform the auditing tasks, as well as the schedule and methodology for the process.

Once decided on all the details, document and circulate the plan to ensure that all staff members have a common understanding of the process before the audit begins.

**Perform the Auditing Work:**

The auditing team should conduct the audit according to the plan and methodologies agreed upon during the planning phase. This will typically include running scans on IT resources like file-sharing services, database servers, and SaaS applications like Office 365 to assess network security, data access levels, user access rights, and other system configurations.

During this process, interview employees outside the IT team to assess their knowledge of security concerns and adherence to company security policy, so any holes in the company's security procedures can be addressed moving forward

**Report the Results:**

Compile audit-related documentation into a formal report that can be given to management stakeholders or the regulatory agency. The report should include a list of any security risks and vulnerabilities detected in IT systems, as well as actions that IT staff recommend to mitigate them.

**Take Necessary Action:**

Follow through with the recommendations outlined in the audit report. Examples of security-enhancement actions can include:

- Performing remediation procedures to fix a specific security flaw or weak spot/s.
- Training employees in data security compliance and security awareness.
- Adopting additional best practices for handling sensitive data and recognizing signs of malware and phishing attacks.
- Acquiring new technologies to strengthen existing systems and regularly monitor infrastructure for security risk.

**(b) Explain the need for energy audit.**

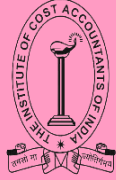
**[7]**

**Answer:**

Energy Audit is the key to a systematic approach for decision-making in the area of energy management. It attempts to balance the total energy inputs with its use and serves to identify all the energy streams in a facility. An industrial energy audit is an effective tool in defining and pursuing a comprehensive energy management programme. As per the Energy Conservation Act, 2001, Energy Audit is defined as “the verification, monitoring, and analysis of the use of energy including submission of technical report containing recommendations for improving energy efficiency with cost-benefit analysis and an action plan to reduce energy consumption”.

**Need for Energy Audit:**

In any industry, the three top operating expenses are often found to be energy (both electrical and thermal), labour, and materials. Hence, cost reduction in energy consumption is of paramount importance. Energy Audit will help to understand more about the ways energy and fuel are used in



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any industry and help in identifying the areas where waste can occur and where the scope for improvement exists.

The Energy Audit would give a positive orientation to the energy cost reduction, preventive maintenance, and quality control programmes which are vital for production and utility activities. Such an audit programme will help to keep the focus on variations that occur in the energy costs, availability and reliability of supply of energy, decide on appropriate energy mix, identify energy conservation technologies, retrofit for energy conservation equipment, etc.

In general, Energy Audit is the translation of conservation ideas into realities, by lending technically feasible solutions with economic and other organisational considerations within a specified time frame.

The primary objective of Energy Audit is to determine ways to reduce energy consumption per unit of product output or to lower operating costs. Energy Audit provides a “bench-mark” (Reference point) for managing energy in the organisation and also provides the basis for planning more effective use of energy throughout the organisation.

**8. (a) Explain briefly about the Scope of Internal Control.**

[7]

**Answer:**

Internal control is an essential pre-requisite for efficient and effective management of any organization and is therefore, a fundamental ingredient for the successful operation of the business in modern days. In fact, an effective internal control system is a critical success factor for any organization in the long term. Internal control has now been recognized as fundamental and indispensable to modern auditing. Thus internal control has its all-embracing nature and is concerned with the controls operative in every area of corporate activity as well as with the way in which individual controls interrelate.

The scope of internal control, according to the aforesaid definitions, extends well beyond accounting control. In an independent financial audit or the statutory audit, the auditor is concerned mainly with the financial and accounting controls. However, in an operational audit (as part of internal controls), the auditor reviews all the controls including operational functions. The internal controls can be broadly classified into following four main categories: financial & accounting controls, administrative controls, operational controls and compliance controls.

- (i) **Administrative Control:** Administrative controls include all types of managerial controls related to the decision-making process. An example of administrative controls is the maintenance of records giving details of customers contacted by the salesmen.
- (ii) **Operational Control:** This is exercised through “management accounting” techniques viz. budgetary control, standard costing etc.
- (iii) **Financial and Accounting Control:** This control refers primarily the management plans, objectives and procedures that are concerned with the safeguarding of assets, prevention and detection of fraud and error, accuracy and completeness of accounting records, and timely preparation of reliable financial information.



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(iv) **Compliance Control:** These controls aim at ensuring compliance with applicable laws and regulations. These Controls also help to ensure compliance with laws regarding the system and intellectual property.

**(b) Discuss Audit Procedure for conducting the Audit of Educational Institutions. [7]**

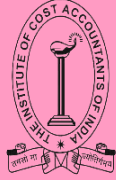
**Answer:**

The following points are to be considered for conducting an audit of Educational Institutions:

- Documents relating to formation of the institution, affiliation, Management structure, Governing Body, ownership etc. requires due attention for fund monitoring, donation, spent approval process, affiliation fees payment etc.

Examine the Trust Deed, or Regulations in the case of school or college and note all the provisions affecting accounts. In the case of a university, refer to the Act of Legislature and the Regulations framed thereunder.

- Approving authority for expense, fund transfer, bank account operation etc. Read through the minutes of the meetings of the Managing Committee or Governing Body, noting resolutions affecting accounts to see that these have been duly complied with, especially the decisions as regards the operation of bank accounts and sanctioning of expenditure.
- Semester / Class-wise Student Register with details of Student name, address, Aadhar No./Card, Guardian details, Contact No. etc. and fee structure (full fees, half fees, sanctioned waiver etc.) mapped for ensuring accuracy of collection. Where collection through direct Banking takes place, the Bank Statement to be equated with 'fees receivable/recoverable' for completeness check and proper revenue /collection (advance/ arrear) recognition. Fees collected and Fees Book counterfoil reconciliation also can be carried out, for fees collected at the Counter. Collection against every student, whose names are appearing in the 'Student Register' to be validated and unpaid ones to be followed-up.
- Updating of 'Student Register' w.r.t discontinued, transferred students, drop-outs etc. to be carried out on timely basis.
- Fees condonation by appropriate authority to be considered for reconciliation between receivable fees and received.
- Admission and other collections (late fees, transfer charges etc.) need to be tracked for separately and booked under appropriate Account Heads.
- Confirm that hostel dues were recovered before students' accounts were closed and their caution deposits appropriately adjusted/refunded.
- Verify other sources of income (rental income from landed property with the rent rolls, bank Fixed Deposit interest from Deposit Certificates etc.)
- Grants received with the relevant papers of grant.
- Appropriate account head for Grant receipt and spent eligible thereunder to be checked for compliance.



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- Review of Receipts and Payments, Income and Expenditure for completeness and accuracy of Fund balances and bank balances.
- Completeness and accuracy of income and expenditure need to be ensured.
- All statutory deposits P.F, Municipal /Corporation Taxes, Affiliation Fees etc.), filing to be checked for compliance.
- Vouch all capital expenditure in the usual way and verify the same with the sanction for the Committee as contained in the minute book.
- Vouch in the usual manner all establishment expenses, approvals and enquire into any high volume expenditure.
- Verify the inventories of furniture, stationery, clothing, provision and all equipment, etc. against the spent booked for the period under review and physical existence. These should be checked by reference to Stock Register and values applied to various items should also be test checked.
- Appropriate Fund Accounts are maintained to verify dedicated Bank balance tallies with the books maintained by the Organization.